From:	ehud barak <ehbarak1@gmail.com>
To:	Gary Fegel <gary@fegel.com>
CC:	
Date:	Thu, 7/4/2013 11:20:35 PM
Subject:	Re: LME ... Food for thought

Gary
Thx for the detailed response.
This time I've thought just of you.
A question: shouldn't backwardation be short-living, temporary by definition?
In re to me, you'll understand more when we meet again.
Best
Ehud

Sent from my iPhone

On Jul 4, 2013, at 9:28, Gary Fegel wrote:

> For both - at different times.
>
> The new rules call for higher outrates per day - which looks bad for an established warehouse, but it's not. The reason is that people assume that higher outrates means that more metal leaves the warehouse every day. But that won't happen, because premiums will go to a level where it becomes not interesting to take the metal, that was different in an environment where every ton up to the maximum was taken every day because the metal was valuable. That's how the queues shrink, yes, but the market will be completely different. The queues shrink much before they actually need, meaning now, because the long guys have to "re-warrant" the metal they have in the queues today.
>
> So if I was still in Glencore, I would continue to stock aggressively until next April und then offer whatever I need to the market - nobody will take it - remember, the takers where not consumers over the last few years, but other warehouse companies and banks and traders - what should they do with the metal now? So the established Warehouse makes a killing on what they have in Stock today. The LME doesn't understand all that. I spoke to a lot of people and realized, most of them don't. I even tried to explain it to Jack Farchy, who wrote the article in the FT that you read.... I know him well. But I decided now that I don't tell people anymore, because they don't get it, and it is a better idea to look at how I can make money myself.
>
> Now, that leaves the small players, say myself privately. Once premiums have gone down to the old levels, my risk to enter a transaction disappears and I can play myself against the big guys, because in a low premium environment and good knowledge I can trade without much risk - if you don't pay much, you can't loose much, but you can gain much. I would never pay 220 premium knowing that they should be 30 but are not because of a rule that can change anytime. I didn't do that in glencore either- remember, I bought all that metal in the crisis cheap. The ones that tried to follow now at 220 will loose. But I would buy again at 30 - not because I think premiums will go back to 220, but because its easy to get 30 and more back from the market if you understand the market and you know how to finance and store metal cheap...,and with warehousing kickbacks and smart logistics you can probably reduce your risk to zero or lower, even as a small investor.
>
> Last but not least this situation could also turn the forward curve into backwardation. this is because the warehouses won't accept every ton of metal anymore because they don't have much incentive to build. So what does somebody do with metal if be cant deliver to the LME? He is forced to borrow.... But that will take some time I think..... In any case, another nice opportunity for a small

trader.
>
> But for producers this is bad news. Remember we discussed that final total price is relevant, meaning LME plus premium. You argued that therefore high premiums would lead to lower LME and the other way round and I argued that these two markets are completely separate and driven by completely different variables. It was very interesting to realize that the LME didn't move up after this announcement although the forward premium has already collapsed in the physical market. That proves my point. That's why the producers will suffer.
>
> Does that make sense?
>
> Although I enjoy this conversation very much, I'm still asking myself why you are so much into that. You told me that you are just interested, but I can't believe that a guy like you has time to go so deep into such a specific niche topic. Do you consider a mandate from one of the Aluminium producers? I keep it for myself, as always.....I'm just curious to know.
>
> Best regards
> Gary
>
>
>
>
> On 4 Jul 2013, at 06:52, ehud barak wrote:
>
>> Gary
>> "Amazing opportunities" for big,well established players exclusively? Or for savvy,knowledgeable new players as well?
>> Best
>> EB
>>
>>
>> Sent from my iPhone
>>
>> On Jul 2, 2013, at 16:17, Gary Fegel wrote:
>>
>>> Ehud
>>> Yes, another blow to the producers... Premiums will fall sharply..... But the shift from the old to the new rules creates an amazing trading opportunity.... Once again.
>>> Best
>>> Gary
>>>
>>>
>>>
>>> On 2 Jul 2013, at 13:10, ehud barak wrote:
>>>
>>>> Gary
>>>> following our conversation
>>>> The world keeps spinning around.
>>>> Best
>>>> EB
>>>> http://www.ft.com/intl/cms/s/0/5988476c-e235-11e2-a7fa-00144feabdc0.html?ftcamp=crm/email/201372/nbe/UKMorningHeadlines/product#axzz2XpaHHcN7
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>>>> Sent from my iPad